

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2009.
2. Commission identification number 31171 3. BIR Tax Identification No. 320-000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)

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7. Address of registrant's principal office Postal Code
Petron MegaPlaza, 358 Sen. Gil Puyat Ave., Makati City 1200

8. Registrant's telephone number, including area code
(0632) 886-3888

9. Former name, former address and former fiscal year, if changed since last report
N/A

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes No

(b) has been subject to such filing requirements for the past 90 days.

Yes No

TABLE OF CONTENTS

Page No.

PART 1 – FINANCIAL INFORMATION

Item 1	Financial Statements	
	Petron Corporation & Subsidiaries Consolidated Statement of Financial Position	4
	Petron Corporation & Subsidiaries Statements of Income	5
	Petron Corporation & Subsidiaries Consolidated Statement of Comprehensive Income	6
	Petron Corporation & Subsidiaries Consolidated Statement of Changes in Equity	7
	Petron Corporation & Subsidiaries Consolidated Statement of Cash Flows	8
	Selected Notes to Consolidated Financial Statements	9 - 24
	Details of Accounts Receivables	25
Item 2	Management's Discussion and Analysis of Financial Conditions and Results of Operations	26 - 38

PART II – OTHER INFORMATION

SIGNATURES	39
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PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions of Pesos)

	Unaudited	Audited
	As at	
	9/30/2009	12/31/2008
ASSETS		
Current Assets		
Cash and cash equivalents	16,746	12,827
Financial assets at fair value through profit or loss	165	161
Available-for-sale investments	-	331
Receivables	26,163	16,875
Inventories	32,611	30,792
Other current assets	3,881	11,977
Total Current Assets	79,566	72,963
Non-Current Assets		
Property, plant and equipment	35,218	36,428
Investment properties	235	246
Available-for-sale investments	1,359	351
Deferred tax assets - net	-	885
Other noncurrent assets	715	925
Total Noncurrent Assets	37,527	38,835
	117,093	111,798
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans	45,587	63,979
Liabilities for crude oil and petroleum product importation	10,480	8,907
Accounts payable and accrued expenses	4,043	4,562
Current portion of long-term debt	1,248	1,263
Income tax payable	8	22
	61,366	68,733
Non-Current Liabilities		
Long-term debt - net of current portion	17,956	8,988
Deferred income tax liabilities	218	8
Other noncurrent liabilities	1,247	1,166
Total Noncurrent Liabilities	19,421	10,162
Stockholders' Equity Attributable to Equity Holders of the Parent		
Capital stock	9,375	9,375
Retained earnings		
Appropriated	15,492	23,920
Unappropriated	11,639	(144)
Other reserves	(444)	(473)
Stockholders' Equity Attributable to Equity Holders of the Parent	36,062	32,678
Minority Interest	244	225
Total Stockholders' Equity	36,306	32,903
	117,093	111,798

Certified by:


Mr. Dennis S. Janson
Financial Analysis & Compliance Manager




PETRON CORPORATION AND SUBSIDIARIES
STATEMENT OF INCOME
For the Nine Month Period Ended Sept 30, 2009 and 2008
(Amounts in Millions of Pesos, Except Per Share Amounts)

Unaudited

	<u>July to September</u>		<u>January to September</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
SALES	46,956	85,104	123,636	216,427
COST OF GOODS SOLD	<u>(42,214)</u>	<u>(82,489)</u>	<u>(111,620)</u>	<u>(205,139)</u>
GROSS PROFIT	4,742	2,615	12,015	11,288
SELLING AND ADMINISTRATIVE EXPENSES	(1,350)	(1,080)	(4,116)	(4,085)
INTEREST INCOME	38	81	147	234
INTEREST EXPENSE	(1,018)	(1,161)	(3,284)	(2,654)
OTHERS	<u>(313)</u>	<u>(196)</u>	<u>(124)</u>	<u>(1,086)</u>
INCOME BEFORE INCOME TAX	2,097	259	4,638	3,607
PROVISION FOR INCOME TAX	<u>(539)</u>	<u>203</u>	<u>(1,272)</u>	<u>(913)</u>
NET INCOME	<u>1,558</u>	<u>462</u>	<u>3,366</u>	<u>2,784</u>
Attributable to:				
Equity holders of the parent	1,554	461	3,347	2,779
Minority interest	<u>4</u>	<u>1</u>	<u>19</u>	<u>5</u>
	<u>1,558</u>	<u>462</u>	<u>3,366</u>	<u>2,784</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT - BASIC AND DILUTED	<u>0.17</u>	<u>0.05</u>	<u>0.36</u>	<u>0.30</u>

Certified by:


Mr. Dennis S. Janson
Financial Analysis & Compliance Manager

Unaudited



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Month Period Ended Sept 30, 2009 and 2008
(Amounts in Millions of Pesos)

	<u>January to September</u>	
	<u>2009</u>	<u>2008</u>
NET INCOME	3,366	2,784
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	29	3
TOTAL COMPREHENSIVE INCOME	3,395	2,787
Attributable to:		
Equity holders of the parent	3,376	2,782
Minority Interest	19	5
	3,395	2,787

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Mr. Dennis S. Janson
Financial Analysis & Compliance Manager

Unaudited



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Nine Month Period Ended Sept 30, 2009 and 2008
 (Amounts in Millions of Pesos)

	Capital Stock	Retained Earnings		Other Reserves	Total	Minority Interest	Total
		Appropriated	Unappropriated				
Balance at January 1, 2009	9,375	23,920	(144)	(473)	32,678	225	32,903
Total Comprehensive Income			3,347	29	3,376	19	3,395
Appropriation for capital projects		(8,428)	8,428		-		-
Prior Period Adjustment			8		8		8
Balance at Sept 30, 2009	9,375	15,492	11,639	(444)	36,062	244	36,306
Balance at January 1, 2008	9,375	21,172	7,520	(412)	37,655	133	37,788
Total Comprehensive Income			2,779	3	2,782	5	2,787
Appropriation for capital projects							
Cash dividends			(937)		(937)		(937)
Share Issue						32	32
Balance at Sept 30, 2008	9,375	21,172	9,362	(409)	39,500	170	39,670

Certified by:

Dennis S. Janson
 Mr. Dennis S. Janson

Financial Analysis & Compliance Manager

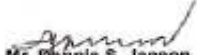


PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions of Pesos)

Unaudited

	January to September	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	4,638	3,697
Adjustments for:		
Depreciation and amortization	2,620	2,966
Interest expense	3,284	2,654
Interest income	(147)	(234)
Net unrealized foreign exchange loss (gain)	(55)	239
Others	(26)	54
Operating income before working capital changes	10,314	8,776
Changes in operating assets and liabilities		
Decrease (increase) in assets:		
Receivables	(1,100)	(4,333)
Inventories	513	(19,007)
Other current assets	7,955	814
Increase (decrease) in liabilities:		
Liabilities for crude oil and petroleum product importation	1,707	19,289
Accounts payable and accrued expenses	(367)	1,951
Provisions for doubtful accounts, inventory obsolescence and others	(2,367)	26
Interest paid	(3,366)	(2,650)
Income taxes paid	(72)	(1,205)
Interest received	158	245
Net cash provided by (used in) operating activities	13,373	3,906
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property, plant and equipment	(1,392)	(4,349)
Decrease (increase) in:		
Other receivables	(8,226)	(1,134)
Other noncurrent assets	217	(303)
Reductions from (additions to):		
Financial assets at fair value through profit or loss	14	-
Available-for-sale investments	(678)	(58)
Net cash provided by (used in) investing activities	(10,065)	(5,844)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of loans	132,666	91,091
Payments of:		
Loans	(132,117)	(89,477)
Cash dividends	(4)	(921)
Others	78	101
Net cash provided by (used in) financing activities	622	1,694
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(11)	71
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,919	(173)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,827	9,732
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,746	9,559

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Mr. Dennis S. Janson
Financial Analysis & Compliance Manager

PETRON CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Petron Corporation (the Parent Company or Petron) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 1966. Petron is the largest oil refining and marketing company in the Philippines, supplying more than one-third of the country's oil requirements. The Company's vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Petron's International Standards Organization (ISO) 14001 - certified refinery processes crude oil into a full range of petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, mixed xylene and propylene. From the refinery, Petron moves its products mainly by sea to Petron's 31 depots and terminals situated all over the country. Through this nationwide network, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is Petron's largest customer. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through more than 1,300 service stations, Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brand "Gasul" and "Fiesta" to households and other consumers through an extensive dealership network.

Petron operates a lube oil blending plant at Pandacan Oil Terminals, where it manufactures lubes and greases. These are also sold through Petron's service stations and sales centers.

In April 2008, Petron inaugurated its 19,000 barrels per day Petro Fluidized Catalytic Cracking (PetroFCC) unit which enables Petron to convert fuel oil into more high value products namely gasoline, diesel and LPG. The PetroFCC also produces the petrochemical feedstock propylene. The propylene is further purified through the Propylene Recovery Unit so that it can be used as raw material for everyday products such as home appliances, automobile parts, etc.

Petron is expanding its non-fuel businesses which include its convenience store brand "Treats." Petron has partnered with major fast-food chains, coffee shops, and other consumer services to give its customers a one-stop full service experience. Petron is also putting up additional company-owned and company-operated (COCO) service stations in strategic locations.

In line with Petron's efforts to increase its presence in the regional market, it exports various petroleum products to Asia-Pacific countries such as Cambodia, South Korea, China, and Australia.

Petron's shares of stock or securities are listed for trading at the Philippine Stock Exchange (PSE). Prior to the entry of Ashmore, the Philippine National Oil Company (PNOC) and the

Aramco Overseas Company B.V. (AOC) each owned a 40% share of equity. The remaining 20% was then held by more than 180,000 stockholders.

On March 13, 2008, AOC, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOG to signify its intent to sell its 40% equity stake in Petron. PNOG eventually waived its right of first offer to purchase AOC's interest in Petron. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore Group, thru its corporate nominee SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands, acquired a total of 50.57% of the outstanding common shares in Petron in the latter part of July 2008. SEA BV is a company owned by funds managed by the Ashmore Group.

On October 6, 2008, the PNOG informed SEA BV and Petron of its intent to dispose of its 40% stake in Petron. In December 2008, the 40% interest of PNOG in Petron was finally purchased by SEA Refinery Corporation (SRC), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV sold a portion of its interest in Petron, equivalent to 10.1% of the issued shares, to SRC. Thus, at the turn of the year, the capital structure of Petron is as follows: SRC – 50.1%; SEA BV – 40.47%; and the general public – 9.43%, making SEA BV's direct and indirect ownership interest in Petron at 90.57%; hence, SEA BV is the Company's parent company as of December 31, 2008.

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary, SRC. The option may be exercised by SMC within a period of two years from December 24, 2008. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Petron Board and appointed as senior officers last January 8 and February 27, 2009.

In the February 27 Board meeting, the Board approved the amendment of the Articles of Incorporation to include the generation and sale of electric power in its primary purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties. The Board also approved an increase of the capital stock from the current P10 billion to P25 billion through the issuance of preferred shares aimed at raising funds for capital expenditures related to expansion programs as well as to possibly reduce some of the Company's debts. Both items, including a waiver to subscribe to the preferred shares to be issued as a result of the increase in capital stock, were approved by the stockholders last May 12, 2009 annual stockholders meeting.

The registered office address of Petron and its Philippine-based subsidiaries (except Petron Freeport Corporation which has its principal offices in the Subic Special Economic Zone) is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City. The registered office of SEA BV is located at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands.

The third quarter consolidated financial statement was presented to the Board of Directors last October 21, 2009.

2. Accounting policies

The accompanying consolidated interim financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRS). It has been measured on the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments, which are at fair value.

The same accounting policies and methods of computation as mentioned in the audited financial statements for the year 2008 were followed in the preparation of these interim financial statements.

3. Basic earnings per share

Earnings per share for the nine-month period ended September 30, 2009 amounted to ₱ 0.36. Net income attributable to equity holders of the parent of ₱ 3,347 million for the interim period was divided by the weighted average number of shares outstanding of 9,375 million as of the close of the third quarter of 2009.

Earnings per share for the nine-month period ended September 30, 2008 amounted to ₱ 0.30. Net income attributable to equity holders of the parent of ₱ 2,779 million for the interim period was divided by the weighted average number of shares outstanding of 9,375 million as of the close of the third quarter of 2008.

4. Fuel Supply Contract

The Company entered into various fuel supply contracts with NPC. Under the agreement, the Company supplies the bunker fuel and diesel fuel oil requirements to NPC, its Independent Power Producers (IPP) and Small Power Utility Groups (SPUG) power plants/barges. For of the third quarter of 2009, the following are the fuel supply contracts granted to Petron:

Bid Date	Date of Award	Contract Duration	DFO (in KL)	IFO (in KL)	DFO (in MP)	IFO (in MP)
July 22, '09	July 31 '09	Aug. to Dec. '09	690	-	19,458	-

5. Explanatory comments about the seasonality or cyclicity of interim operations

Seasonality or cyclicity of interim operations is not applicable to the Registrant's type of business because the demand for petroleum products remains fairly stable throughout the year.

6. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence

There are no assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

7. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period

There are no changes in estimates of amounts in the third quarter of 2009.

8. Issuances, repurchases, and repayments of debt and equity securities

There are no repurchases and repayments of debt and equity securities during the third quarter of 2009.

9. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting

Segment Information

Management identifies segments based on business and geographical locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Petron's major sources of revenues are as follows:

- a. Sales from petroleum and other related products which include gasoline, diesel, kerosene, fuel oil, jet fuel and LPG offered to motorists and public transport operators through its service station network around the country as well as to industrial accounts, international and domestic carriers;
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance;
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures;
- d. Sales on wholesale or retail, and operation of service stations, retail outlets, restaurants, convenience stores and the like; and,
- e. Exports sales of various petroleum and non-fuel products to Asia-Pacific countries such as Cambodia, South Korea, China, Australia and Indonesia.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of September 30, 2009 and December 31,

2008 and for the nine-month periods ended September 30, 2009 and 2008. Segment assets and liabilities exclude deferred tax assets and deferred liabilities.

(Amounts in millions)

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
<u>Period Ended Sept. 30,</u>						
<u>2009</u>						
Revenue						
External Sales	₱121,239			₱ 2,396	-	₱123,635
Inter-segment Sales	1,545	₱110	₱144	-	(₱1,799)	-
Segment results	7,341	92	110	61	295	7,899
Net income	3,146	128	32	61	(1)	3,366
<u>As of Sept 30, 2009</u>						
Assets and liabilities						
Segment assets	114,077	2,115	2,742	1,140	(2,981)	117,093
Segment liabilities	80,078	456	1,876	455	(2,296)	80,569
Other segment information						
Property, plant and equipment	31,867	-	-	658	2,693	35,218
Depreciation and amortization	2,556	-	-	64	-	2,620
<u>Period Ended Sept 30,</u>						
<u>2008</u>						
Revenue						
External Sales	₱213,177			₱3,250		₱216,427
Inter-segment Sales	2,495	₱107	₱154	-	(₱2,756)	-
Segment results	6,658	92	120	86	247	7,203
Net income	2,507	121	26	70	60	2,784
<u>As of December 31, 2008</u>						
Assets and liabilities						
Segment assets	107,800	2,036	2,619	1,507	(3,049)	110,913
Segment liabilities	78,042	535	1,792	881	(2,363)	78,887
Other segment information						
Property, plant and equipment	33,149	1	-	704	2,574	36,428
Depreciation and amortization	3,169	-	-	74	-	3,243

The following tables present additional information on the petroleum business segment of the Company as of September 30, 2009 and December 31, 2008 and for the nine-month periods ended September 30, 2009 and 2008:

(Amounts in millions)

	Retail	Lube	Gasul	Industrial	Others	Total
Property, plant and equipment						
As of Sept 30, 2009	P4,144	P442	P253	P76	P26,952	P31,867
As of December 31, 2008	4,138	489	255	46	28,221	33,149

	Retail	Lube	Gasul	Industrial	Others	Total
Capital Expenditures						
As of Sept 30, 2009	P364	P4	P62	P24	P5,106	P5,560
As of December 31, 2008	288	3	58	5	5,722	6,076

Revenue						
Period ended Sept 30, 2009	P52,611	P1,528	P8,495	P48,028	P12,122	P122,784
Period ended Sept 30, 2008	80,284	1,631	11,794	77,255	44,708	215,672

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Company for the nine-month periods ended September 30, 2009 and 2008:

(Amounts in millions)

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period ended Sept. 30, 2009						
Revenue						
Local	P114,450	P54	P144	P2,396	(P1,799)	P115,245
Export/International	8,334	56	-	-	-	8,390
Period ended Sept 30, 2008						
Revenue						
Local	P182,426	P56	P154	P3,250	(P2,756)	P183,130
Export/International	33,246	51	-	-	-	33,297

10. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

On March 13, 2008, AOC, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOG to signify its intent to sell its 40% equity stake in Petron. PNOG eventually waived its right of first offer to purchase AOC's interest in Petron. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore Group, thru its corporate nominee SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands,

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11. Changes in contingent liabilities or contingent assets since the last annual balance sheet date

Petron has unused letters of credit totaling approximately ₱ 39.9 million as of September 30, 2009 and ₱ 69.5 million as of December 31, 2008.

12. Assessment on financial risk exposures of the company – currency, interest, credit, market and liquidity risk

Foreign Exchange Risk

The Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Company's revenues. The Company's exposures to foreign exchange risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Company maintains a level of US dollar-

denominated assets and liabilities during the period. Foreign exchange risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

The Company pursues a policy of hedging foreign exchange risk by purchasing currency forwards or by substituting U.S. dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Company is allowed to engage in active risk management strategies for a portion of its foreign exchange risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

The following is the summation of the Company's foreign currency denominated financial assets and liabilities as of September 30, 2009, September 30, 2008 and December 31, 2008:

	Sept 30, 2009	Sept 30, 2008	Dec. 31, 2008
(Amounts in millions)	In USD	In USD	In USD
Financial assets	178	197	107
Financial liabilities	(219)	(510)	(167)
Net foreign exposure	(41)	(313)	(60)

The exchange rates used to restate the US dollar denominated financial assets and liabilities stated above are ₱47.39, ₱47.26 and ₱47.52, respectively.

The succeeding table shows the effect of the percentage changes in the Philippine peso to US dollar exchange rate on the Company's income before tax. These percentages have been determined based on the market volatility in exchange rates in the previous three months for the quarters ended September 30, 2009, September 30, 2008, and for full year 2008. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each statement of financial position date, with effect estimated from beginning of the respective periods

Had the Philippine peso strengthened or weakened against the US dollar, then these would have the following impact:

(Amounts in millions)	Sept 30, 2009	Sept 30, 2008	Dec. 31, 2008
Increase/Decrease in exchange rates	11.05%	13.45%	18.36%
Increase/Decrease in pre-tax income	₱215	₱1,989	₱523

Interest Rate Risk

The Company's exposure to interest rate risk is mainly related to its cash and cash equivalents and debt instruments. Currently, the Company has achieved a balanced mix of cash balances with various deposit rates and fixed and floating rates on its various debts.

Future hedging decisions for floating deposit/interest rates will continue to be guided by an assessment of the overall deposit and interest rate risk profiles of the Parent Company considering the net effect of possible deposit and interest rate movements.

The succeeding table illustrates the sensitivity of income before tax for the periods, given increases/decreases in deposit rates and interest rates for Philippine peso loans and US dollar loans, all of which at 95% level of confidence, with effect from the beginning of the said periods. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. The calculations are based on the Company's financial instruments held at each of those statements of financial position dates. All other variables are held constant.

Effect of change in rates on Philippine peso and US dollar denominated loans and cash balances with floating interest/deposit rates:

(Amounts in millions)	Sept 30, 2009		Sept 30, 2008		Dec. 31, 2008	
	PHP	USD	PHP	USD	PHP	USD
Increase/decrease interest rates for short term loans/deposits	16.78%	(2.19%)	59.43%	(65.98%)	39.68%	19.94%
Increase/decrease interest rates for long term loans	31.64%	-	70.28%	67.38%	52.93%	49.67%
Increase/decrease in pretax income	₱558	₱(5)	₱1,370	(₱38)	₱1,782	₱26

The following table sets out the carrying amount of the Company's financial instruments exposed to interest rate risk:

(Amounts in millions)	Sept 30, 2009	Sept 30, 2008	Dec. 31, 2008
Cash in bank and cash equivalent	₱13,973	₱6,038	₱8,291
Short-term loans	45,587	37,032	53,979
Long-term loans	1,500	4,117	2,000

Sensitivity to interest rates varies during the year considering the volume of cash and loan transactions. The analysis above is considered to be a representative of the Company's interest rate risk.

Credit Risk

In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Company credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Marketing and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statement of financial position or in the notes to the consolidated financial statements, as summarized below.

(Amounts in millions)	Sept 30, 2009	Sept 30, 2008
Cash in bank and cash equivalents	₱13,973	₱6,511
Receivables	26,163	23,349
Total	₱40,136	₱29,860

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of this other financial assets is therefore considered to be high grade.

In monitoring trade receivables and credit lines, the Company maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly) and credit utilization efficiency (semi-annually).

Collaterals. To the extent practicable, the Company also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are real estate mortgages, bank guarantees, letters of credit and cash bonds. These securities may only be called on or applied upon default of customers.

Credit Risk Concentration. The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade receivable assets is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of homogenous trade customers. The Company does it execute any credit guarantee in favor of any counterparty.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refer to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Liquidity Risk

The Company is exposed to the possibility that adverse changes in the business environment and/or its operations could result to substantially higher working capital requirements and consequently, a difficulty in financing additional working capital.

The Company manages liquidity risk by keenly monitoring its cash position as well as maintaining a pool of credit lines from financial institutions that exceeds projected financing requirements for working capital. The Company, likewise, regularly evaluates

other financing instruments and arrangements to broaden the Company's range of sources of financing.

Commodity Price Risk

To minimize the Company's risk of potential losses due to volatility of international crude and product prices, the Company implemented commodity hedging for petroleum products. The hedging authority approved by the BOD is intended to (a) protect margins of MOPS (Mean of Platts of Singapore)-based sales and (b) protect product inventories from downward price risk. Hedging policy (including the use of commodity price swaps, buying of put options, and use of collars and 3-way options; with collars and 3-way options starting in March 2008) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Company's management.

Other Market Price Risk

The Company's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

13. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period

TCC-Related Matters

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending. The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In November 1999, BIR issued an assessment against the Company for deficiency excise taxes of ₱284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR ₱580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially

identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

In May 2002, the BIR issued a collection letter for deficiency taxes of ₱254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The Second Division of the CTA promulgated a decision on May 4, 2007 denying our Petition for Review for lack of merit. The Company was ordered to pay the respondent the reduced amount of ₱601 million representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc. On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

It should be noted that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is ₱910.7 million.

The Company does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and results of operations. The Company's external counsel's analysis of potential results of these cases was subsequently supported by the Decision of the Supreme Court in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

Pandacan Terminal Operations

The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron, the Company filed a petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

A status quo order is in effect and the case is under mediation proceedings. Recently, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows The Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervising events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, The Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

As a result of the passage of Ordinance No. 8119, on April 23, 2007, upon motion of the Company, Mayor of Manila and the City Council, on the ground that the issues raised in said case has become academic, the RTC dismissed the case filed by the Company questioning Ordinance No. 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the Oil Terminals. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. On February 28, 2008, the Company, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the Supreme Court.

Social Justice Society (SJS), Vladimir Cabigao and Bonifacio Tumbokon filed before the Supreme Court a Motion to stop the City Council of Manila from further hearing the amending ordinance to Ordinance No. 8027. Petitioners alleged that the proposed amendment is "a brazen and malicious attempt by the City of Manila to thwart the Supreme Court's 7 March 2007 decision and 13 February 2008 resolution on the case". The SC 7 March 2007 decision ordered the oil companies Petron, Shell and Chevron to move out of the Pandacan oil depot. To date, the Supreme Court has not issued any TRO or Order granting the motion filed by the petitioners.

On March 5, 2009, Manila Councilor Arlene W. Koa filed a draft resolution entitled "An Ordinance Amending Ordinance No. 8119 Otherwise Known As "The Manila Comprehensive Land Use Plan And Zoning Ordinance of 2006 By Creating A Medium Industrial Zone (I-2) And Heavy Industrial Zone (I-3) And Providing For Its Enforcement". Section 5 thereof lists "petroleum refineries and oil depots" under highly pollutive/extremely hazardous industries while Section 2 provides that "The land use where the existing industries are located, the operation of which are permitted under Section 1 hereof, are hereby classified as Industrial Use". On March 13, 2009, the Committee on Laws of the City Council of Manila heard the merits of the proposed ordinance. On May 28, 2009, Mayor Alfredo Lim of Manila approved and signed proposed Ordinance 7177 (which became Ordinance No. 8187) repealing Ordinance No. 8027 and 8119 and allowing the continued stay of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

Oil Spill Incident in Guimaras

M/T Solar I sunk in rough seas in the afternoon of August 11, 2006 en route to Zamboanga, loaded with about 2 million liters of industrial fuel oil. It now lies about 640 meters beneath the sea, at approximately 13 nautical miles southwest of Guimaras.

The Company immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the spill.

Inspection by the Survey Ship Shinsei Maru, using a remote-operated vehicle (ROV), found the vessel upright with minimal traces of leakage. All cargo compartment valves were tightened by the ROV to ensure against further leakage. The Shinsei Maru was contracted by the Protection and Indemnity (P & I) Club and the International Oil Pollution Compensation (IOPC) from Fukada Salvage & Marine Works Co. Ltd.

On separate investigations by the Special Task Force on Guimaras by the Department of Justice and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC) liable. The DOJ found no criminal liability on the part of The Company. However, the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution.

The Company implemented a “Cash for Work” program involving residents of the affected areas in the clean-up operations, providing them with a daily allowance. The Company also mobilized its employees to assist in the operations. By the middle of November 2006, The Company had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company collected a total 6,000 metric tons of debris which were brought to the Holcim Cement facility in Lugait, Misamis Oriental for processing/treatment of waste. On November 20, 2006, one of the last barge shipments of oil debris unfortunately sunk en route to the same plant¹.

The Company is working closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community. Last November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected Guimarasnons, the company has established

1 To dispel fear of contamination in the area, personnel and equipment were brought to the sink site. In separate statements made by the Philippine Coast Guard (PCG), DENR and the Bureau of Fisheries and Aquatic Resources (BFAR), they found no traces of oil in the water. The Company engaged the services of Mindanao State University and Dr. Angel Alcala of the Silliman University to conduct an impact assessment of the sunken debris on the environment. Both studies concluded that the sinking of the ship had no effect on the environment.

programs and facilities aimed at helping improve basic education in the province. Among the interventions along this line were the construction of the Petron School in Nueva Valencia and the establishment of the Petron Library Hub in Jordan, both of which were inaugurated on June 15, 2007. To complement these educational facilities, the Company has put in place internet connectivity in all the public high schools and Department of Education facilities in Guimaras.

The Company also established a mari-culture park at the Southeast Asian Fisheries Development Center (SEAFDEC) area in the town of Nueva Valencia in August 2007. Several representatives from nearby barangays received hands-on training including the construction of fish cages, stocking of fingerlings, feeding, maintenance work on the fish cages, harvesting and packaging for shipment to ensure that the program is sustainable.

With regard to the retrieval of the remaining oil still trapped in M/T Solar I, the P & I contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. The recovery vessel AME Allied Shield arrived at Bacolod Real Estate Development Corporation (BREDCO) Pier in Bacolod City last March 10, 2007. After unloading the ISO-certified tanks and hoses, the vessel proceeded to site on March 11, 2007. Oil recovery operation was technically completed on April 1, 2007. A total of 9,000 liters of oil was recovered.

Representatives from the IOPC met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of the claim. The Company has filed a total of ₱ 220 million against the IOPC as of September 2008. A total of ₱ 129 million has been paid to the Company. The recent installment was collected last June 13, 2008. As of September 30, 2008, total outstanding claims from IOPC amounted to ₱91 million.

On June 17, 2009, a certain Emily Dalida, whose child Remelo M. Dalida died on August 16, 2006 at Brgy. Cabalagnan, Nueva Valencia, Guimaras, and Marcelino Gacho who was hospitalized for seventeen (17) days due to parapneumonic effusion, filed formal complaints for Homicide for the death of Remelo Dalida and for Less Serious Physical Injuries suffered by Gacho allegedly due to exposure to the oil spill along the shores of Cabalagnan against the respondents Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. Petron received a copy of the Subpoena on July 10, 2009. Petron submitted Atty. Cruz's counter-affidavit on August 4, 2009. On the basis of the statement in Atty. Cruz' counter-affidavit, Dalida and Gacho amended their complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto, the Vice President and Board of Directors as respondents.

On August 4, 2009, the Provincial Prosecutor served a subpoena with a complaint-affidavit from Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275). On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent.

The Provincial Prosecutor issued a Subphoena in both cases directing Petron to file their Counter-Affidavit and other controverting evidence. Petron filed a Manifestation and Motion for Extension of Time to file additional Counter-affidavits.

Bataan Real Property Tax Cases

On August 21, 2007, Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Company to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007.

The Company had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bonds to stop collection of the assessed amount. The Company contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT₃) Facilities of the Company which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by the Company of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. The Company questioned this second assessment on the ground among others that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of The Company, which she set for October 17, 2007.

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court. On February 28, 2008, our counsel was served notice of the Resolution of the Supreme Court directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

Last January 17, 2008, the Company appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the CBAA.

On June 27, 2008, the Supreme Court dismissed the petition filed by Talento on the Order granting the writ of injunction. All five Justices concurred that Talento's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the Supreme Court without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. The Provincial Treasurer filed its Motion for Reconsideration of the Decision. The League of Provinces of the Philippines (LPP) also filed its Motion for Reconsideration-in-Intervention dated August 20, 2008.

On September 8, 2008, the Supreme Court issued a Resolution denying with finality the Motion for Reconsiderations of both the Provincial Treasurer and the LPP as well as the Motion to Intervene filed by the LPP. The Supreme Court issued a Resolution dated December 15 denying for lack of merit Talento's motion for leave to file a second motion for reconsideration of the Decision dated June 27, 2008 which dismissed the petition for certiorari, considering that a second motion for reconsideration is a prohibited pleading under Rules of Civil Procedure. The second motion for reconsideration is noted without action in view of the denial of the motion for leave. The Court ordered that the Entry of Judgment be made.

We received an Order dated August 14, 2009 requiring our counsel and the counsel for the municipality of Limay to manifest in writing if the pending incidents may now be deemed submitted for resolution.

On August 24, 2009 we filed a Manifestation and Motion in re defendant's Motion to Dismiss. All pending incidents are now deemed submitted for resolution.



Petron Corporation and Subsidiaries
Receivables
September 30, 2009
(Amounts in Millions of Pesos)

Breakdown:

Accounts Receivable - Trade	7,737
Accounts Receivable - Non-Trade	18,426
Total Accounts Receivable	<u><u>26,163</u></u>

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1-30 days	6,959
	31-60 days	1,052
	61-90 days	210
	Over 90 days	<u>260</u>
Total		8,481
Allowance for doubtful accounts		<u>744</u>
Accounts Receivable - Trade		<u><u>7,737</u></u>

Interim Financial Report as of September 30, 2009

Management Discussion and Analysis of Financial Condition and Results of Operations

Operating Revenues and Expenses

	YTD September		
(In Million Pesos)	2009	2008	% Inc(Dec)
Sales Revenues	123,635	216,427	(43)
Cost of Goods Sold	111,620	205,139	(46)
Gross Margin	12,015	11,288	6
Selling and Administrative	4,116	4,085	1
Non-Operating Charges	3,262	3,506	(7)
Net Income-Consolidated	3,366	2,784	21
EBITDA	10,395	8,483	22
Sales Volume (MB)	32,324	38,799	(17)
Earnings per Share	0.36	0.30	20
Return on Sales (%)	2.7	1.3	108

In the **first nine months of the year**, Petron posted a **net profit of ₱ 3.36 billion**, 21% higher than the ₱ 2.78 billion earnings in the same period in 2008.

The total plant shutdown until the first half of February and the drop in regional prices enabled the Company to take advantage of cheap imported products, thus, maximizing trading gains in the first quarter of the year. Towards the second quarter, net earnings slowed down when the refinery reverted to production mode and eventually, sold the remaining expensive crude bought in 2008 as the Company carried an inventory of about two months' supply. On the other hand, more favorable market conditions characterized the third quarter of 2009 which resulted in higher margins from the third quarter year-ago level. Also, it would be noted that the global financial crisis worsened in third quarter 2008 when the demand for oil contracted which led to the collapse in oil prices. Benchmark Dubai crude then softened from a historical high of US\$141/bbl in July to about US\$88/bbl in September, the month when most of the expensive crude were sold. The latter triggered the start of losses for the Parent Company with a negative margin of ₱ 1.88 billion sustained for the month of September 2008 alone. Thus, consolidated **net profit rose to ₱ 1.56 billion** in the **third quarter** of this year, more than triple the ₱ 462 million income reported in the same period last year.

With improved bottom line, **earnings before interest, taxes, depreciation and amortization (EBITDA)** of ₱ 10.4 billion was 22% better than previous year's ₱ 8.48 billion.

As a result, **earnings per share** grew by 20% to **₱ 0.36** from previous year's ₱ 0.30. Likewise, **return on sales** rose to **2.7%**, more than double the prior year's level of 1.3%.

Major contributory factors follow:

Gross margin (GM) grew by 6% to ₱ 12 billion from same period in 2008 of ₱ 11.29 billion. At the same time, GM rate was higher at **9.7%** compared to corresponding period a year-ago of 5.2%. Favorable margin was attributed to the relatively steady movement in crude/regional prices in 2009 as well as lighter sales mix (2009: 77%W vs. 2008: 70%W).

The following accounted for the variance in gross margin:

- ◆ **Sales volume of 32.3 million barrels** was 6.5 million barrels short of the 38.8 million barrels achieved in the first nine months of 2008 owing mainly to the decline in Exports. This was due to the lower crude runs compared to previous year as a result of thinning refining margins which rendered exports unattractive. Domestic sales also contracted by 2.7% due to inventory build up of service station dealers last year in response to the spiraling fuel prices which peaked in July and the push program in September 2008 when prices began to drop steeply. Furthermore, the global economic slowdown which resulted in reduced operations and closure of several semi-conductor and other manufacturing accounts also contributed to the lower sales volume this year.
- ◆ **Net revenues totaled ₱ 123.63 billion**, 43% (₱ 92.8 billion) lower than last year's ₱ 216.43 billion essentially due to the fall in the average selling price by ₱ 11.03 per liter. The significant decline in selling prices was a result of lower benchmark Dubai and MOPS prices. Average 2009 Dubai as of September 2009 was US\$57.33/bbl, 47% behind same period 2008 level of US\$107.45/bbl.
- ◆ **Cost of goods sold** dipped to **₱ 111.62 billion**, 46% (₱ 93.52 billion) behind previous year's ₱ 205.14 billion. The crude that formed part of cost for the first three quarters averaging US\$57.97/bbl was substantially lower than the average cost in similar period of 2008 at US\$107.40/bbl.
- ◆ **Refinery operating expenses** (which formed part of cost of sales) escalated by 15% (₱ 504 million) to **₱ 3.88 billion** from prior year's ₱ 3.38 billion. This was due mainly to higher maintenance and repairs (by ₱ 297 million) representing repairs done on electrical facilities damaged by the fire incident in November 2008 and the depreciation (by ₱ 239 million) of two units (Petro Fluidized Catalytic Cracking and Propylene Recovery) completed in April 2008 as well as the Benzene and Toluene extraction unit which became fully operational in May 2009.

With the rise in refinery OPEX coupled with lower capacity utilization, cost per liter of crude processed significantly went up to at **₱ 1.04** as against previous year's ₱ 0.59.

- **Selling & administrative expenses** at **₱ 4.12 billion** was slightly higher than last year's ₱ 4.09 billion essentially from increases in employee costs as well as purchased services and utilities.

As a percentage of sales, actual rate of **3.3%** exceeded prior year's 1.9%. Similarly, on a peso per liter sold basis, actual OPEX of **₱ 0.80** surpassed last year's ₱ 0.66.

- **Net financing costs & other charges** slid by 7% (₱ 244 million) to **₱ 3.26 billion** from the ₱ 3.51 billion levels in same period of 2008. The upsurge in interest costs were reduced by the minimal **net other charges of ₱ 125 million** from previous year's ₱ 1.09 billion mainly on the appreciation of the Philippine peso versus the US dollar which resulted in foreign exchange (forex) gains reversing prior year's forex losses from dollar-denominated transactions.

Meanwhile, total **interest expense** from both short and long-term loans climbed by 24% (2009: ₱ 3.28 billion vs. 2008: ₱ 2.65 billion) emanating mostly from long-term peso borrowing from issuance of the ₱ 10 billion FXCN in June 2009 and higher short-term borrowing levels vis-à-vis the previous year (YTD 2009 average: ₱ 41.4B vs. YTD 2008 average: ₱ 33.90B).

Capital Resources and Liquidity

Total assets as of September 30, 2009 reached **₱ 117.09 billion**, 5% or ₱ 5.29 billion higher than the end-December 2008 level of ₱ 111.8 billion.

Cash and cash equivalents went up by 31% or ₱ 3.92 billion to **₱ 16.75 billion** as cash cycle shortened to 39 days from 58 days in 2008.

Available-for-sale investments (current and noncurrent) moved up to **₱ 1.36 billion** from last year's balance of ₱ 682 million as the Company's local and foreign insurance subsidiaries increased investments in government securities/corporate bonds.

Receivables-net rose significantly by 55% or ₱ 9.3 billion from prior year's ₱ 16.88 billion attributed mostly to additional filing of claims for VAT from zero-rated sales.

Inventories climbed to **₱ 32.61 billion** from ₱ 30.79 billion as of December 31, 2008 brought about mainly by higher crude prices (₱ 4,554/bbl as of September 30, 2009 vs. ₱ 3,510/bbl as of December 31, 2008).

Other current assets dropped by 68% or ₱ 8.1 billion to **₱ 3.88 billion** on account mainly of the reclassification of Input VAT claims to receivables account.

Deferred tax assets had nil balance this period from end-December 2008's ₱ 885 million due to the effect of the inventory differential (FIFO vs. MAP) partly offset by the impact of the net operating loss carryover as well as the payment of the minimum corporate income tax (MCIT) during the third quarter of 2009.

Other non-current assets were lower at **₱ 715 million** this year from the ₱ 925 million year-end 2008 balance traced to the recognition of the retirement expense this year as well as decreases in prepayment lease and long-term receivables.

Short-term loans and liabilities for crude oil and petroleum product importations slipped by 11% (₱ 6.8 billion) to **₱ 56.07 billion** due essentially to more stable crude and finished products prices this year.

Accounts payable and accrued expenses declined to **₱ 4.04 billion** from last year's ₱ 4.56 billion traced largely to decrease in retention payable with the completion of major projects at the Refinery as well as lower accrual of interest expense.

Long-term debt inclusive of current portion escalated by 87% or ₱ 8.95 billion to **₱ 19.2 billion** traceable to the issuance of the ₱ 10 billion FXCN in June of this year partly offset by the amortization of existing loans.

Income tax payable slid to **₱ 8 million** from ₱ 22 million as at December 31, 2008 owing to the lower tax payable reported by the subsidiaries and the application of creditable withholding taxes against tax due.

Deferred income tax liabilities rose from end-December's **₱ 8 million** to **₱ 218 million** as of September 30, 2009 traceable to temporary differences reflected under parent and subsidiaries' accounts.

Other non-current liabilities went up by 7% or **₱ 81 million** from ₱ 1.17 billion last year mainly because of the increment in provision for Asset Retirement Obligation and bond account deposit.

Retained Earnings' grew by ₱ 3.36 billion from ₱ 23.77 billion to **₱ 27.13 billion** essentially due to the consolidated net income realized in the first nine months of the year.

Other reserves' negative balance slid to **₱ 444 million** from ₱ 473 million attributed mainly by the higher translation adjustment for the foreign insurance company.

Cash Flow

Operating activities of the Company generated net cash inflows amounting to **₱ 13.37 billion** driven mainly by higher cash earnings coupled with the net decrease in net operating assets.

In Million Pesos	Sep 30, 2009	Sep 30, 2008	Change
Operating Inflows	13,373	3,906	9,467
Investing Outflows	(10,065)	(5,844)	4,221
Financing Inflows	622	1,694	(1,072)

Discussion of the company's key performance indicators:

Ratio	Sep 30, 2009	Dec 31, 2008
Current Ratio	1.3	1.1
Debt to Equity Ratio	2.2	2.4
Return on Equity (%)	14.6	(11.1)
Debt Service Coverage	2.8	1.2
Tangible Net worth	₱ 36.3Bn	₱ 32.9Bn

Current Ratio: Total current assets divided by total current liabilities. This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio is, the greater the "cushion" between current obligations and a company's ability to pay them.

Debt Equity Ratio: Total liabilities divided by tangible net worth. This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

Return on Equity: Net income divided by average total stockholders' equity. This ratio reveals how much profit a company earned in comparison to the total amount of shareholders equity found on the balance sheet. A business that has a high return on equity is more likely to be one

that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

Debt Service Coverage: The sum of free cash flows and available closing cash balance divided by projected debt service. This ratio shows the **cash flow** available to pay for **debts** to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

Tangible Net Worth: **Net worth** minus intangible assets. This figure gives a more immediately realizable value of the company.

Known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity

Inflation

Inflation remained subdued until the 3rd quarter bringing YTD September average at 3.9%, sharply lower than 9.2% in the same period last year. Significantly lower fuel prices and the easing prices of food and services coupled by a stable peso contributed to the downtrend in inflation.

Gross Domestic Product (GDP)

After a sluggish economic performance during the first quarter, GDP improved in the second quarter, posting 1.5% growth. Easing contraction of exports and imports, positive investments, growth in remittances and higher government and personal consumption provided support to the economy in the 2nd quarter. In the 3rd quarter, positive growth is expected to uphold, though this may be constrained by the damages brought by the recent typhoons and heavy flooding.

91-Day Treasury-Bill Rate/Philippine Dealing System Treasury Fixing (PDST-F) Rates

YTD September 2009 91-day T-bill rates stood at an average of 4.1%, lower than 2008's 5.2% FY average. Interest rates in 2009 dropped as liquidity in the financial markets remained sufficient. Subdued inflation also allowed the Bangko Sentral ng Pilipinas (BSP) to maintain low interest rates. Since December 2008, BSP has cut its policy rates by a total of 200 basis points.

Relative to 2008 of 5.394%, the three-month PDST-F rates as of September 30, 2009 stood lower at 4.491%. Reflective of the money market activities, this supported that liquidity remained sufficient for the first three quarters of 2009. Yield curve outlook remained on the downward trend supporting BSP's stand to maintain interest rates at a low side for the rest of the year. Hence, there is a pressure for an upward yield curve in anticipation of BSP's tightening measures for 2010.

Peso-Dollar Exchange Rates

Peso as of YTD September 2009 averaged ₱ 47.9/US\$. Although this is a steep fall from last year's 9-month average of ₱ 43.2/US\$, the local currency has proven to be very stable hovering at around ₱ 47-48/US\$ in the first 3 quarters. Growing remittance inflows and

higher foreign investments brought by easing risk aversion contributed to the peso's stability.

Dubai price

After the collapse in oil prices since the 2nd half of 2008, Dubai recovered in 2009 and exceeded US\$70/bbl in August. Coming from 1Q09 average of US\$44.31/bbl, Dubai strengthened and averaged at US\$67.8/bbl in the 3rd quarter bringing 9-month average at US\$57.1/bbl. Various stimuli packages and optimism in the global economic recovery supported the rebound of oil prices.

Industry Oil Demand

Data from DOE shows that industry oil demand expanded by 5.2% in the first nine months of the year compared to the same period last year. From 276.6 thousand barrels per day (MBD) in the Jan-Sep last year, industry demand rose to 291.1 MBD as the current low prices encouraged higher spending of fuel products.

Tight industry Competition

Despite the weakening oil demand, competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of YTD September they have collectively cornered around 21.7% of the total oil market. Collectively, the new players are leading the LPG market segment with 48.1% market share.

Material commitments for capital expenditures

As of October 8, 2009, the 2009 capital program amounts to ₱ 14.6 billion. Of this amount, ₱ 12.9 billion has been funded for refinery projects such as efficiency related projects, power-related projects and replacement of receiving facilities; ₱ 1.0 billion for the expansion of the service station network; ₱ 0.4 for tankage facilities and ₱ 0.3B for miscellaneous projects (such as safety, maintenance-related, operating support equipment etc.). Other projects forming part of the 2009 capital program shall be further evaluated and funding may be requested in the succeeding quarters.

Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations

Illegal trading practices

Cases of smuggling and illegal trading (e.g. “bote-bote” retailing, illegal refilling) continue to be a concern. These illegal practices have resulted in unfair competition among players.

Existing or Probable Government Regulation

Modification of Import Duty on Crude Oil & Refined Petroleum Products. To cushion impact of rising oil prices in the world market, the Government issued Executive Order No. 691 in January 2008 adjusting import duty rates on crude oil and refined

Tariff Rate	Dubai (\$/bbl)	MOPS 0.05%\$ Diesel (\$/bbl)
2%	≥ 86.5	≥ 100.0
1%	≥ 91.7	≥ 113.0
0%	≥ 103.5	≥ 117.0

petroleum products based on the tabulated trigger prices indexed to international oil prices, Dubai crude and Mean of Platts Singapore (MOPS). The guidelines stressed that oil companies should reflect reduction in pump prices of diesel fuel to the public transport sector. Moreover, oil companies are required to submit to DOE monthly reports, which indicate their actual sales volume along with amount offered to the public.

Biofuels Act of 2006. Aiming to reduce the dependence of transport sector on imported fuel, the biofuels law signed in January 2007 mandates that ethanol comprise 5% of total gasoline sales by 2009. Oil companies are allowed to blend the different premium gasoline grades with 10% ethanol to be sold in selected areas to achieve the 5% of total gasoline volume requirement. For diesel engines, biodiesel blend increased from 1% in 2008 to 2% in February 2009. The Department of Energy (DOE) is now also considering increasing the current requirement of 2% biodiesel blend to 3%.

To produce compliant fuels, the Company invested in CME (coco methyl ester) injection systems at the refinery and depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the Company already started selling ethanol blended gasoline in selected service stations in Metro Manila in May 2008.

Renewable Energy Act of 2008. The Renewable Energy Act signed in December 2008 aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g. biomass, solar, wind) through various tax incentives. Renewable energy developers will be given 7-year income tax holiday, power generated from these sources will be VAT-exempt, and facilities to be used or imported will also have tax incentives.

Laws on Oil Pollution. To address issues on marine pollution and oil spillage, use of double-hull vessels for transporting black products by end-2008 and tentatively by 2010 for transporting white products was mandated.

Petron has been using double-hull vessels in transporting all black products and some white products already.

Clean Air Act. Petron invested in a Gasoil Hydrotreater Plant and in an Isomerization Plant to enable it to produce diesel and gasoline compliant with the standards set by law.

Liquefied Petroleum Gas (LPG) Bill. The LPG Act of 2009 aims to ensure safe practices and quality standards and mitigate unfair competition in the LPG sector. LPG cylinder

seal suppliers must obtain a license and certification of quality, health and safety from the Department of Energy before they are allowed to operate. LPG cylinder requalifiers, repairers and scrapping centers, will also have to obtain a license from the Department of Trade and Industry. The Bill also imposes penalties on underfilling, underdelivering, illegal refilling and storage, sale or distribution of LPG-filled cylinders without seals, illegal possession of LPG cylinder seal, hoarding, and importation of used or second-hand LPG cylinders, refusal of inspection, and non-compliance to standards.

Significant elements of income or loss that did not arise from the issuer's continuing operations

There are no elements of income or loss that did not arise from the Registrant's continuing operations.

Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

TCC-Related Matters

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending. The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In November 1999, BIR issued an assessment against the Company for deficiency excise taxes of ₱284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR ₱580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

In May 2002, the BIR issued a collection letter for deficiency taxes of ₱254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The Second Division of the CTA promulgated a decision on May 4, 2007 denying our Petition for Review for lack of merit. The Company was ordered to pay the respondent the reduced amount of ₱601 million representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc. On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

It should be noted that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is ₱910.7 million.

The Company does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and results of operations. The Company's external counsel's analysis of potential results of these cases was subsequently supported by the Decision of the Supreme Court in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

Pandacan Terminal Operations

The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron, the Company filed a petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

A status quo order is in effect and the case is under mediation proceedings. Recently, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows The Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervening events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, The Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

As a result of the passage of Ordinance No. 8119, on April 23, 2007, upon motion of the Company, Mayor of Manila and the City Council, on the ground that the issues raised in said case has become academic; the RTC dismissed the case filed by the Company questioning Ordinance No. 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the Oil Terminals. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. On February 28, 2008, the Company, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the Supreme Court.

Social Justice Society (SJS), Vladimir Cabigao and Bonifacio Tumbokon filed before the Supreme Court a Motion to stop the City Council of Manila from further hearing the amending ordinance to Ordinance No. 8027. Petitioners alleged that the proposed amendment is "a brazen and malicious attempt by the City of Manila to thwart the Supreme Court's 7 March 2007 decision and 13 February 2008 resolution on the case". The SC 7 March 2007 decision ordered the oil companies Petron, Shell and Chevron to move out of the Pandacan oil depot. To date, the Supreme Court has not issued any TRO or Order granting the motion filed by the petitioners.

On March 5, 2009, Manila Councilor Arlene W. Koa filed a draft resolution entitled "An Ordinance Amending Ordinance No. 8119 Otherwise Known As "The Manila Comprehensive Land Use Plan And Zoning Ordinance of 2006 By Creating A Medium Industrial Zone (I-2) And Heavy Industrial Zone (I-3) And Providing For Its Enforcement". Section 5 thereof lists "petroleum refineries and oil depots" under highly pollutive/extremely hazardous industries while Section 2 provides that "The land use where the existing industries are located, the operation of which are permitted under Section 1 hereof, are hereby classified as Industrial Use". On March 13, 2009, the Committee on Laws of the City Council of Manila heard the merits of the proposed ordinance. On May 28, 2009, Mayor Alfredo Lim of Manila approved and signed proposed Ordinance 7177 (which became Ordinance No. 8187) repealing Ordinance No. 8027 and 8119 and allowing the continued stay of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

Oil Spill Incident in Guimaras

M/T Solar I sunk in rough seas in the afternoon of August 11, 2006 en route to Zamboanga, loaded with about 2 million liters of industrial fuel oil. It now lies about 640 meters beneath the sea, at approximately 13 nautical miles southwest of Guimaras.

The Company immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the spill.

Inspection by the Survey Ship Shinsei Maru, using a remote-operated vehicle (ROV), found the vessel upright with minimal traces of leakage. All cargo compartment valves were tightened by the ROV to ensure against further leakage. The Shinsei Maru was contracted by the Protection and Indemnity (P & I) Club and the International Oil Pollution Compensation (IOPC) from Fukada Salvage & Marine Works Co. Ltd.

On separate investigations by the Special Task Force on Guimaras by the Department of Justice and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC) liable. The DOJ found no criminal liability on the part of The Company. However, the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution.

The Company implemented a “Cash for Work” program involving residents of the affected areas in the clean-up operations, providing them with a daily allowance. The Company also mobilized its employees to assist in the operations. By the middle of November 2006, The Company had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company collected a total 6,000 metric tons of debris which were brought to the Holcim Cement facility in Lugait, Misamis Oriental for processing/treatment of waste. On November 20, 2006, one of the last barge shipments of oil debris unfortunately sunk en route to the same plant^[1].

The Company is working closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community. Last November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected Guimarasnons, the company has established programs and facilities aimed at helping improve basic education in the province. Among the interventions along this line were the construction of the Petron School in Nueva Valencia and the establishment of the Petron Library Hub in Jordan, both of which were inaugurated on June 15, 2007. To complement these educational facilities, the Company has put in place internet connectivity in all the public high schools and Department of Education facilities in Guimaras.

The Company also established a mari-culture park at the Southeast Asian Fisheries Development Center (SEAFDEC) area in the town of Nueva Valencia in August 2007. Several representatives from nearby barangays received hands-on training including the construction

1 To dispel fear of contamination in the area, personnel and equipment were brought to the sink site. In separate statements made by the Philippine Coast Guard (PCG), DENR and the Bureau of Fisheries and Aquatic Resources (BFAR), they found no traces of oil in the water. The Company engaged the services of Mindanao State University and Dr. Angel Alcala of the Silliman University to conduct an impact assessment of the sunken debris on the environment. Both studies concluded that the sinking of the ship had no effect on the environment.

of fish cages, stocking of fingerlings, feeding, maintenance work on the fish cages, harvesting and packaging for shipment to ensure that the program is sustainable.

With regard to the retrieval of the remaining oil still trapped in M/T Solar I, the P & I contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. The recovery vessel AME Allied Shield arrived at Bacolod Real Estate Development Corporation (BREDCO) Pier in Bacolod City last March 10, 2007. After unloading the ISO-certified tanks and hoses, the vessel proceeded to site on March 11, 2007. Oil recovery operation was technically completed on April 1, 2007. A total of 9,000 liters of oil was recovered.

Representatives from the IOPC met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of the claim. The Company has filed a total of ₱ 220 million against the IOPC as of September 2008. A total of ₱ 129 million has been paid to the Company. The recent installment was collected last June 13, 2008. As of September 30, 2008, total outstanding claims from IOPC amounted to ₱91 million.

On June 17, 2009, a certain Emily Dalida, whose child Remelo M. Dalida died on August 16, 2006 at Brgy. Cabalagnan, Nueva Valencia, Guimaras, and Marcelino Gacho who was hospitalized for seventeen (17) days due to parapneumonic effusion, filed formal complaints for Homicide for the death of Remelo Dalida and for Less Serious Physical Injuries suffered by Gacho allegedly due to exposure to the oil spill along the shores of Cabalagnan against the respondents Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. Petron received a copy of the Subpoena on July 10, 2009. Petron submitted Atty. Cruz's counter-affidavit on August 4, 2009. On the basis of the statement in Atty. Cruz' counter-affidavit, Dalida and Gacho amended their complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto, the Vice President and Board of Directors as respondents.

On August 4, 2009, the Provincial Prosecutor served a subpoena with a complaint-affidavit from Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275). On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent.

The Provincial Prosecutor issued a Subphoena in both cases directing Petron to file their Counter-Affidavit and other controverting evidence. Petron filed a Manifestation and Motion for Extension of Time to file additional Counter-affidavits.

Bataan Real Property Tax Cases

On August 21, 2007, Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Company to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007.

The Company had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bonds to stop collection of the assessed amount. The Company contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3)

Facilities of the Company which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by the Company of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. The Company questioned this second assessment on the ground among others that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of The Company, which she set for October 17, 2007.

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court. On February 28, 2008, our counsel was served notice of the Resolution of the Supreme Court directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

Last January 17, 2008, the Company appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the CBAA.

On June 27, 2008, the Supreme Court dismissed the petition filed by Talento on the Order granting the writ of injunction. All five Justices concurred that Talento's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the Supreme Court without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. The Provincial Treasurer filed its Motion for Reconsideration of the Decision. The League of Provinces of the Philippines (LPP) also filed its Motion for Reconsideration-in-Intervention dated August 20, 2008.

On September 8, 2008, the Supreme Court issued a Resolution denying with finality the Motion for Reconsiderations of both the Provincial Treasurer and the LPP as well as the Motion to Intervene filed by the LPP. The Supreme Court issued a Resolution dated December 15 denying for lack of merit Talento's motion for leave to file a second motion for reconsideration of the

Decision dated June 27, 2008 which dismissed the petition for certiorari, considering that a second motion for reconsideration is a prohibited pleading under Rules of Civil Procedure. The second motion for reconsideration is noted without action in view of the denial of the motion for leave. The Court ordered that the Entry of Judgment be made.

We received an Order dated August 14, 2009 requiring our counsel and the counsel for the municipality of Limay to manifest in writing if the pending incidents may now be deemed submitted for resolution.

On August 24, 2009 we filed a Manifestation and Motion in re defendant's Motion to Dismiss. All pending incidents are now deemed submitted for resolution.


All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or persons created during the reporting period.

There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

SIGNATURES

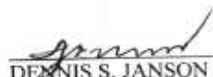
Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant PETRON CORPORATION

Signature and Title 
JOSE JESUS G. LAUREL
Corporate Secretary

Date: November 10, 2009

Principal Financial/Accounting Officer/Controller

Signature and Title 
DENNIS S. JANSON
Financial Analysis & Compliance Manager

Date: November 10, 2009